

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

May 17, 2011

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, May 17, 2011, at 1:00 p.m., in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senator Jared Carpenter; Representatives Robert R. Damron and Steven Rudy.

Guests: Representatives John Will Stacey, Jim Gooch, and Dennis Horlander; John Hicks, Governor's Office of Policy Management; Charles Bush, Division of Real Property; Sandy Williams, Kentucky Infrastructure Authority; Katie Smith, Cabinet for Economic Development; and Tom Howard and Brett Antle, Office of Financial Management.

LRC Staff: Kristi Culpepper and Samantha Gange.

Approval of Minutes

Representative Damron made a motion to approve the minutes of the April 19, 2011, meeting. The motion was seconded by Representative Glenn and approved by voice vote.

Correspondence Items

Senator Leeper asked Kristi Culpepper, Committee Staff Administrator, to discuss correspondence items. Ms. Culpepper said members' folders contained two items of correspondence. The first item was a letter from the Cabinet for Economic Development regarding amendments to the Kentucky Economic Development Finance Authority Industrial Building Revenue Note, Series 2010 (Goodwill Industries of Kentucky, Inc. project) transaction. The committee approved the \$28 million conduit bond issue in March 2010. The amendments relate to the financing agreement, tax compliance agreement, and issuer authorizing resolution. The amendments only relate to timing and do not change the nature of the project.

The second of item of correspondence was a letter from the Council on Postsecondary Education (CPE) notifying the committee that the council approved the University of Kentucky to purchase an Ambulatory Electronic Health Record Equipment

/ System. The committee approved the project in March 2011 contingent upon CPE's approval.

Information Items

Ms. Culpepper said members' folders contained three information items. The first item was from the School Facilities Construction Commission (SFCC) regarding members' questions from the April 2011 meeting; and the last two items were the staff and bond market updates.

Project Scope Increases from the Finance and Administration Cabinet

Senator Leeper asked John Hicks, Deputy Director, Governor's Office of Policy Management, to present two items related to scope increases. Mr. Hicks said the first item was a scope increase for a budgeted capital project for Eastern Kentucky University (EKU), Construct Stratton Building Addition project. The scope increase is \$825,000 in restricted funds with a revised project scope of \$6,325,000. The additional funds are needed to address change orders, increases in furnishing / equipment costs, and unanticipated infrastructure renovations.

Senator Carpenter made a motion to approve the scope increase for EKU. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Mr. Hicks said the second item was a scope increase for a budgeted capital project for Kentucky Community and Technical College System (KCTCS), Construct Cosmetology Building project. The scope increase is \$70,000 in restricted funds with a revised scope of \$1,050,000. The low construction bid of \$809,326 would have reduced project contingency funds to a level that was unacceptable to the Finance and Administration Cabinet. The scope increase will allow the project to proceed in a timely manner.

Representative Glenn commented that he is employed by the KCTCS Owensboro campus; however this project pertains to the KCTCS Ashland campus.

Representative Rudy made a motion to approve the scope increase for KCTCS. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Lease Modification Report from the Division of Real Property

Senator Leeper asked Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet, to report on several items related to leases. Mr. Bush said the first item was a report of changes in square footage for eight state leases for the period January through March 2011. The lease modifications were less than \$50,000 and did not require Committee action.

Lease Renewals Exceeding \$100,000 from Division of Real Property

Mr. Bush said the first lease renewal was for the Department of Corrections in Fayette County (PR-3086) for office space with an annual rental cost of \$116,908. The lease term is through June 30, 2012.

The second lease renewal was for the Department of Workers Claims in Fayette County (PR-4708) for office space with an annual rental cost of \$141,465. The lease term is through June 30, 2012.

The third lease renewal was for the Department for Workforce Investment in Boone County (PR-4243) for office space with an annual rental cost of \$105,555. The lease term is through June 30, 2019.

Representative Damron made a motion to approve the three lease renewals. The motion was seconded by Representative Glenn and passed unanimously by roll call vote.

New Lease Exceeding \$100,000 from Division of Real Property

Mr. Bush said the next item was a new lease for the Cabinet for Health and Family Services in Harlan County (PR-4864). The annual cost of the lease is \$135,771 through June 30, 2017 and includes 90 parking spaces. The cabinet currently occupies 19,014 square feet of office space under three separate lease agreements representing a combined annual rental cost of \$149,375. The cabinet has requested to consolidate into a single facility.

In response to a question from Representative Damron, Mr. Bush said the consolidation of the three leases will save the Commonwealth \$13,603 annually.

Representative Rudy made a motion to approve the new lease. The motion was seconded by Senator Carpenter and passed unanimously by roll call vote.

New Lease Exceeding \$200,000 from Division of Real Property

Mr. Bush said the last item was a new lease exceeding \$200,000 for the Department of Agriculture in Jefferson County (PR-5133). The annual cost of the lease is \$219,773 (100 percent federally funded) through June 30, 2018 and includes 4,026 square feet of office space, 18,377 square feet of warehouse space, and 50 parking spaces. The department requested new space to house a commodity distribution center, which serves as a statewide food bank. The new space request was prompted by a US Department of Agriculture inspection at the current leased space that revealed deficiencies that could compromise future federal funding.

Representative Glenn made a motion to approve the new lease. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Kentucky Infrastructure (KIA) Fund A Loans

Senator Leeper asked Sandy Williams, Financial Analyst, KIA, to present several loans. Ms. Williams said the first request was a \$500,000 Fund A loan for the City of Pineville in Bell County for the benefit of Pineville Utility Commission for the planning and design work associated with the Virginia Avenue Utility Replacement project. The loan term is five years with an interest rate of three percent, which is standard for planning and designing loans. This project qualifies for additional subsidization of \$150,000 in principal forgiveness.

In response to a question from Senator Leeper, Ms. Williams said the total cost for the project including the planning and design is \$6,000,000 and is eligible for full KIA funding. She indicated that the city wanted to proceed with the planning and designing phase first.

The second loan request was a \$2,000,000 Fund A loan for the City of Vanceburg in Lewis County for the benefit of the Vanceburg Electric Plant Board for the CSO Renovation project. The funding for this project will be used for the first phase of a two phase project. The loan term is 20 years with an interest rate of one percent. The project qualifies for additional subsidization of \$600,000 in principal forgiveness.

Senator Leeper asked why the ratio of engineering fees to construction costs were so high for this project. Ms. Williams said the engineering costs reflect both construction phases of the project.

KIA Fund A Loans for Sanitation District No.1

The next three Fund A loan requests were for Sanitation District No. 1 in Boone, Campbell, and Kenton Counties to reduce and eliminate sewer overflows as well as address a Consent Decree with the Kentucky Division of Water and the US Environmental Protection Agency. Seven projects have been combined into three loan requests. The first loan request was \$15,187,500 for the Ash Street Force Main and Ash Street Pump Station. The loan term is 20 years with an interest rate of two percent. The project qualifies for Green Project Reserve funding for \$1,676,000 in Green Infrastructure and \$1,787,000 in Energy Efficiency.

The second loan request for Sanitation District No.1 was \$14,188,155 for the Church Street CSO Reduction project, Kentucky Aire Pump Station Elimination project, and Lakeview Pump Station Improvements project. The loan term is 20 years with an interest rate of two percent. The project qualifies for Green Project Reserve funding for \$1,148,330 in Green Infrastructure and \$3,075,000 in Energy Efficiency.

The third loan request for Sanitation District No.1 was \$7,778,000 for the Lakeside Park Public and Private Source I/I and Sewer Rehabilitation and Vernon Lane Public and Private Source I/I and Sewer Rehabilitation. The loan term is 20 years with an

interest rate of two percent. The project qualifies for Green Project Reserve funding for \$910,000 in Green Infrastructure and \$6,620,000 in Energy Efficiency.

Representative Rudy made a motion to approve the five Fund A loan requests. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

KIA Grant

Ms. Williams indicated one non-coal development grant authorized by the General Assembly was included in members' folders. No further committee action was needed.

Economic Development (EDB) Pool Grant Amendment

Senator Leeper asked Katie Smith, Deputy Commissioner, Department for Financial Incentives, Cabinet for Economic Development, to present an item. Ms. Smith said the cabinet is requesting approval of an amendment to the terms of an existing \$196,500 EDB project for the City of Franklin in Simpson County for the benefit of HBAS Manufacturing, Inc. The outstanding grant was made to offset the cost of the company's \$12 million expansion in Simpson County. The company has requested an amendment to the grant extending the deadline for meeting the jobs requirement of retaining its existing workforce of 270 full-time employees and creating an additional 100 jobs. In exchange for the extension, HBAS agrees to add an additional 20 jobs beyond the original requirement and to maintain those jobs until January 2013. The company plans to invest \$8 million in the plant to manufacture a new, high-volume product.

In response to a question from Representative Glenn, Ms. Smith said the company will add an additional 20 jobs to the original grant requirements.

Senator Leeper asked what type of new product was being launched at the facility. Ms. Smith said she did not know.

Representative Rudy asked if similar amendments have been given to other companies. Ms. Smith responded affirmatively.

Representative Glenn made a motion to approve the EDB grant amendment. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

New Bond Issue – State Property and Building Commission (SPBC)

Senator Leeper asked Tom Howard, Director, Office of Financial Management (OFM), and Brett Antle, Deputy Director, OFM, to present several items. Mr. Antle said the first item was a new bond issue for State Property and Building Commission Revenue and Revenue Refunding Bonds, Project. No. 100. The par amount of the bonds is \$368,435,000. Proceeds from this bond issue will 1) provide permanent financing for

projects authorized in 2005 HB 267 (2004-06 Budget), 2006 HB 380 (2006-08 Budget) and HB 557, 2008 HB 406 and 608 (2008-10 Budget), and 2010 Extraordinary Session HB 1 (2010-12 Budget); 2) refund outstanding bonds issued under SPBC Project No. 68 (Second Series), Project No. 69 (Series A), and Project No. 72 for present value savings; and 3) restructure approximately \$130 million of fiscal year 2012 debt service for budgetary relief.

Representative Damron made a motion to approve the new bond issue. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Follow-up Report for Previously Approved Bond Issue

Mr. Antle said the second item was a follow-up report for Turnpike Authority of Kentucky Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects), 2011 Series A. Proceeds from this transaction will be used to make improvements and additions to the Kentucky Economic Development Road System. This transaction did not include a debt restructuring component as originally contemplated.

School Bond Issues

Mr. Antle reported four new bond issues with School Facilities Construction Commission (SFCC) debt service participation for Hancock County, Leslie County, Monticello Independent in Wayne County, and Silver Grove Independent in Campbell County).

Representative Damron made a motion to approve the new SFCC bond issues. The motion was seconded by Senator Carpenter and passed unanimously by roll call vote.

Senator Leeper asked Ms. Culpepper to report new local school district bond issues. Ms. Culpepper said there were five local school district bond issues with 100 percent locally-funded debt service for Dayton Independent in Campbell County, Fairview Independent in Boyd County, Kentucky Interlocal School Transportation Association, and two for Leslie County.

With there being no further business, Representative Glenn made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 1:50 p.m.